

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of)

) IB Docket No. 96-261

International Settlement Rates)

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

**REPLY COMMENTS OF THE
COALITION OF SERVICE INDUSTRIES**

Pursuant to the Commission's Notice of Proposed Rulemaking ("NPRM") in the above referenced proceeding, the Coalition of Services Industries ("CSI")¹ submits these reply comments.

In February 1997, CSI filed comments with the Commission that reflected the priorities of large business users of international telecommunications services. U.S. companies need global access to innovative, cost-effective telecommunications services to be competitive. CSI's members believe that the international telecommunications infrastructure should be provided through competitive suppliers, as they are best equipped to meet users' demands for new innovations at competitive prices.

¹ CSI was established in 1982 to represent the interests of the largest segment of the economy, the service sector. CSI's member companies, which includes major international companies from a variety of service sectors, conduct business in all fifty states and in over 150 countries. CSI formed the Telecommunications Services Working Group one year ago to ensure that business users' interests are represented in applicable public policy discussions. The Working Group represents the interests of service industry companies that use telecommunications services to conduct business in the United States and around the world. Business users believe that robust competition represents the best way to achieve innovative, reliable, cost-effective and responsive telecommunications services.

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On February 15, 1997, the World Trade Organization ("WTO") announced that 69 member countries would enter into an agreement to introduce competition into their markets for basic telecommunications services. This landmark agreement will help to ensure that competition and competitive market access become the rule, not the exception, in basic telecommunications services. CSI aggressively advocated this agreement and fully supports rapid implementation. International Message Telephone Service ("IMTS") will benefit from competition-based pricing as the WTO agreement is implemented. As the prices of the services react to competitive forces the demand for the services will increase.

The Commission's NPRM on accounting rate benchmarks complements the recent WTO agreement. This NPRM addresses a fundamental implementation issue: the establishment of a cost-based settlement process. The NPRM provides leadership to the international basic services providers. It creates benchmarks for U.S. bilateral traffic and also recommends policies and methodologies for other countries to follow.

Several parties have suggested that the major purpose of the NPRM is to provide a mechanism to lower the U.S. imbalance in settlement payments.² CSI disagrees with this assessment of the NPRM's purpose. Although the United States has a large settlement payments deficit due to the imbalance of outbound minutes to inbound minutes, the size of the deficit is, in part, the result of an inflated accounting-rate system. CSI encourages the alignment of settlement rates with the cost of providing the service.

² See comments of: Chunghwa Telecom, COMTELCA, and Nepal Telecommunications.

When the settlement process reflects the cost of services, we believe that the prices for IMTS should decrease. In most cases, business users seek to obtain international telecommunications services at the lowest prices. To a business person, a call from the United States to Country A has the same value as a call from Country A to the United States. Country-direct, refile, and call back services are examples of alternatives being implemented to maximize value. All represent competition-based pricing solutions to monopoly infrastructures. CSI members encourage competition in IMTS services and alternative access options.

Due to competition-based pricing in the United States, U.S. carriers have become globally the supplier of choice for IMTS. International business users prefer to originate IMTS calls in the competitively-priced U.S. market which, in turn, creates an outbound traffic surplus and an outpayments deficit. The NPRM may address the amount of the outpayment, but it will not address the foreign correspondents' willingness to compete. It is the willingness of foreign government to open markets to competition that will result in parity in international settlements.

CSI supports the recommendations of the Economic Strategy Institute that the FCC adopt three requirements: 1) a benchmark test to address above-cost accounting rates, 2) oversight and enforcement measures to ensure carriers do not act in an anticompetitive manner, and 3) the Equivalent Competitive Opportunity ("ECO") test to create a way of ensuring fair, bilateral treatment.

Benchmarks should be developed and implemented beginning January 1, 1998. Where country-specific cost data exist, the settlement rate benchmark should be country-specific. In second and third tier country groupings, benchmarks should be created from the best available economic information. The implementation of these benchmarks may require more time but should be implemented not later than January 1, 2000.

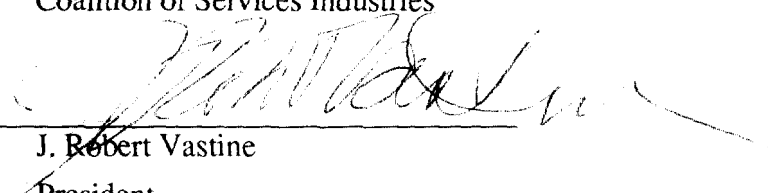
Oversight and enforcement is of keen interest to CSI members. The Commission should develop clear enforcement procedures for the implementation of accounting rate benchmarks. The Commission should also adopt safeguards within its procedures to ensure that users, specifically business users, are able to count on continuity of services and predictability of prices.

With respect to the ECO test, CSI believes it may be useful to help the FCC determine the degree of access a foreign carrier should have to the U.S. market. The ECO test's usefulness will be depend on the extent to which it is determined to be MFN consistent.

CSI supports the Commission's actions to reform the international settlement process. The Commission should proceed with rules that will reduce the cost of international accounting rates. CSI members also encourage the Commission to take whatever action it can to implement greater competition in the international telecommunication services market.

Respectfully submitted,
Coalition of Services Industries

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